

**CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA**

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
Years ended December 31, 2010 and 2009**

**CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Clay County Communications, LLC
Spencer, Iowa

We have audited the accompanying balance sheets of Clay County Communications, LLC (an Iowa limited liability company) as of December 31, 2010 and 2009, and the related statements of income, changes in members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clay County Communications, LLC as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Kiesling Associates LLP

West Des Moines, Iowa
March 3, 2011

**CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA**

**BALANCE SHEETS
December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 166,267	\$ 93,529
Accounts receivable:		
Members	181,973	231,494
Other	21,415	17,729
Inventory	38,005	16,299
Prepayments	<u>11,110</u>	<u>11,365</u>
	<u>418,770</u>	<u>370,416</u>
 OTHER NONCURRENT ASSETS		
Prepayments	<u>26,305</u>	<u>31,498</u>
 PROPERTY, PLANT AND EQUIPMENT		
PCS plant in service	1,050,850	1,050,850
Less accumulated depreciation	<u>265,932</u>	<u>191,653</u>
	<u>784,918</u>	<u>859,197</u>
 TOTAL ASSETS	 <u><u>\$ 1,229,993</u></u>	 <u><u>\$ 1,261,111</u></u>

The accompanying notes are an integral part of these financial statements.

**CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA**

**BALANCE SHEETS
December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ -	\$ 5,304
Accounts payable:		
Members	8,942	16,713
Other	91,885	60,996
Advance billing and payments	53,197	43,070
Customer deposits	6,975	5,475
Accrued taxes	<u>5,755</u>	<u>6,110</u>
	<u>166,754</u>	<u>137,668</u>
 LONG-TERM DEBT, less current portion	 <u>-</u>	 <u>92,124</u>
 OTHER NONCURRENT LIABILITIES		
Asset retirement obligation	<u>17,251</u>	<u>16,436</u>
 MEMBERS' EQUITY	 <u>1,045,988</u>	 <u>1,014,883</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 <u>\$ 1,229,993</u>	 <u>\$ 1,261,111</u>

The accompanying notes are an integral part of these financial statements.

CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA

STATEMENTS OF INCOME
Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Access services	\$ 886,801	\$ 828,786
Phone and accessory sales	60,865	70,086
Roamer services	52,409	26,475
Universal service revenue	121,413	125,546
Miscellaneous revenue	11,503	13,326
Uncollectibles	<u>(17,427)</u>	<u>(5,489)</u>
	<u>1,115,564</u>	<u>1,058,730</u>
OPERATING EXPENSES		
Cost of wireless services	383,717	337,532
Cost of phone and accessory sales	193,957	225,294
Network operations	133,781	121,471
Depreciation and accretion	75,094	73,720
Customer operations	146,114	183,521
Corporate operations	43,783	42,703
General taxes	<u>5,577</u>	<u>7,109</u>
	<u>982,023</u>	<u>991,350</u>
OPERATING INCOME	<u>133,541</u>	<u>67,380</u>
OTHER INCOME		
Interest income	1,198	728
Allowance for funds used during construction	-	3,460
Interest expense	<u>(3,634)</u>	<u>(4,784)</u>
	<u>(2,436)</u>	<u>(596)</u>
NET INCOME	<u>\$ 131,105</u>	<u>\$ 66,784</u>

The accompanying notes are an integral part of these financial statements.

**CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA**

**STATEMENTS OF CHANGES IN MEMBERS' EQUITY
Years ended December 31, 2010 and 2009**

	<u>Evertex, Inc.</u>	<u>Spencer Municipal Utilities</u>	<u>Total</u>
Ownership Percentage	<u>50 %</u>	<u>50 %</u>	<u>100 %</u>
Balance, December 31, 2008	\$ 474,049.50	\$ 474,049.50	\$ 948,099.00
Net income	<u>33,392.00</u>	<u>33,392.00</u>	<u>66,784.00</u>
Balance, December 31, 2009	507,441.50	507,441.50	1,014,883.00
Net income	65,552.50	65,552.50	131,105.00
Distributions	<u>(50,000.00)</u>	<u>(50,000.00)</u>	<u>(100,000.00)</u>
Balance, December 31, 2010	<u>\$ 522,994.00</u>	<u>\$ 522,994.00</u>	<u>\$1,045,988.00</u>

The accompanying notes are an integral part of these financial statements.

**CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA**

**STATEMENTS OF CASH FLOWS
Years ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 131,105	\$ 66,784
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and accretion	75,094	73,720
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	45,835	(80,912)
Inventory	(21,706)	(3,022)
Prepayments	5,448	5,258
Increase (Decrease) in:		
Accounts payable	23,118	(34,599)
Accrued taxes	(355)	1,998
Other	11,627	(2,077)
Net cash provided by operating activities	<u>270,166</u>	<u>27,150</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>-</u>	<u>(110,227)</u>
Net cash used in investing activities	<u>-</u>	<u>(110,227)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(97,428)	(5,787)
Distributions	<u>(100,000)</u>	<u>-</u>
Net cash used in financing activities	<u>(197,428)</u>	<u>(5,787)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	72,738	(88,864)
Cash and Cash Equivalents at Beginning of Year	<u>93,529</u>	<u>182,393</u>
Cash and Cash Equivalents at End of Year	<u>\$ 166,267</u>	<u>\$ 93,529</u>

The accompanying notes are an integral part of these financial statements.

**CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 1. ORGANIZATION

Clay County Communications, LLC (an Iowa limited liability company, herein referred to as "the Company") was formed in 2006 to provide wireless telecommunications utilizing Personal Communications Services (PCS) spectrum in a service area located primarily in Clay County, Iowa. This service is provided by leasing licensed PCS spectrum from Evertek, Inc. Each member provides these services under their own name to the customers in their markets. Evertek, Inc. and Spencer Municipal Utilities (Communications Utility only) participate in this partnership, each with a 50% interest under an agreement filed in accordance with Iowa Code Chapter 28E. The members are entitled to equally share all profits and will equally be responsible for all losses of Clay County Communications, LLC. This agreement shall terminate on May 1, 2016, but may be extended by mutual agreement for an additional five years.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America. Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management has evaluated subsequent events through March 3, 2011, the date the financial statements were available for issue.

Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

Accounts Receivable

Receivables are reported at the amounts the Company expects to collect on balances outstanding at year end. The Company monitors outside balances and periodically writes off balances that are determined to be uncollectible. The Company has concluded that losses on balances outstanding at year end will be immaterial.

Inventory

Inventory is stated at the lower of cost or market with cost determined by the average cost method. Inventory consists of wireless mobile telephone equipment that is purchased by the Company primarily for sale to customers.

**CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment

Property, plant and equipment is capitalized at original cost including the capitalized cost of salaries and wages, materials, certain payroll taxes, employee benefits and interest incurred during the construction period.

The Company provides for depreciation for financial reporting purposes on the straight-line method by the application of rates based on the estimated service lives of the various classes of depreciable property. These estimates are subject to change in the near term.

Renewals and betterments of units of property are charged to plant in service. When plant is retired, its cost is removed from the asset account and charged against accumulated depreciation less any salvage realized. No gains or losses are recognized in connection with routine retirements of depreciable property. Repairs and renewals of minor items of property are included in plant specific operations expense.

Asset Retirement Obligations

Generally accepted accounting principles require entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset.

Long-Lived Assets

The Company would provide for impairment losses on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Based on current conditions, management does not believe any of its long-lived assets are impaired.

Income Taxes

Under provisions of the Internal Revenue Code, the members include their respective shares of Partnership income or loss on their individual tax returns. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

**CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Company earns wireless service revenues by providing access to its wireless network (access revenue) and for usage of its wireless system (airtime revenue). Access revenue from postpaid customers is billed either in advance or arrears and recognized ratably over the service period. Airtime revenue, including roaming revenue and long distance revenue, is billed in arrears based on minutes of use and is recognized when the service is rendered. Prepaid airtime sold to customers and revenue collected from pay-in-advance customers is recorded as deferred revenue prior to the commencement of services, and revenue is recognized when airtime is used or expires. Access and airtime services provided are billed throughout the month according to the bill cycle in which a particular subscriber is placed.

The Company offers enhanced services including caller ID, call waiting, call forwarding, three-way calling, no answer/busy transfer, text messaging and voice mail. Generally, these enhanced features generate additional service revenues through monthly subscription fees or increased wireless usage through utilization of the features. Other optional services may also be provided for a monthly fee. These enhanced features and optional services may be bundled with package rate plans or sold separately. Revenues for enhanced services and optional features are recognized as earned.

Equipment sales consist principally of revenues from the sale of wireless handsets and accessories to new and existing customers and to agents and other third-party distributors. The revenue and related expenses associated with the sale of wireless handsets and accessories through our indirect sales channels are recognized when the products are delivered and accepted by the agent or third-party distributor and probability of collection is likely. Shipping and handling costs for wireless handsets sold to agents and other third-party distributors are classified as costs of sales and services.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were \$10,520 and \$4,663 in 2010 and 2009, respectively.

Fair Value Measurements

Recent accounting guidance for financial assets and liabilities presented at fair value defines "fair value", establishes a framework for measuring fair value, and expands disclosures related to fair value measurements. The guidance does not expand the use of fair value measurements in financial statements, but rather standardizes its definition and application in generally accepted accounting principles. The guidance provides for the use of three levels of input in determining fair value measurements. (Level 1 - quoted market prices; Level 2 - observable inputs of quoted market prices for similar or inactive items; and Level 3 - unobservable inputs.)

CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA

NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform with the 2010 presentation.

NOTE 3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes the following:

	<u>2010</u>	<u>2009</u>
PCS plant in service:		
Buildings	\$ 47,694	\$ 47,694
Communications equipment	4,224	4,224
Wireless equipment	537,832	537,832
Towers	<u>461,100</u>	<u>461,100</u>
 Total property, plant and equipment	 <u>\$ 1,050,850</u>	 <u>\$ 1,050,850</u>

Depreciation on depreciable property resulted in composite rates of 7.07% and 7.38% for 2010 and 2009, respectively.

Depreciation expense was \$74,279 and \$72,944 for the years ending December 31, 2010 and 2009, respectively.

NOTE 4. ASSET RETIREMENT OBLIGATION

The Company has determined that asset retirement obligations exist as there is a legal obligation to remove wireless cellular equipment at the time the Company discontinues its use. The Company's cost to remove these assets is accrued over the life of the assets. These costs, measured at fair value, are valued at Level 3 in the fair value hierarchy. Under the Level 3 valuation, the Company estimated the cost of removal of the equipment and towers using current expected labor and overhead cost including a contractor's mark up for similar removal projects. These costs were adjusted for average inflation at 3.3% to arrive at the expected cash flows for removal. The expected cash flows were discounted at an average rate of 4.9% using a present value technique. The changes in the carrying value of the Company's asset retirement obligations for the years ended December 31, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Beginning balance as of January 1,	\$ 16,436	\$ 14,750
Additions in estimated cash flows	-	910
Accretion expense	815	776
Balance as of December 31,	<u>\$ 17,251</u>	<u>\$ 16,436</u>

**CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 5. LONG-TERM DEBT

	<u>2010</u>	<u>2009</u>
State Bank - 5%	\$ -	\$ 97,428
Less current portion	-	5,304
	<u>\$ -</u>	<u>\$ 92,124</u>

Cash paid for interest, net of amounts capitalized, for 2010 and 2009 totaled \$3,634 and \$1,324, respectively.

NOTE 6. SPECTRUM LEASE

The Company leases licensed PCS spectrum from Evertek, Inc. The Company paid \$50,000 to lease this spectrum from August 2006 through June 2015. The Company amortizes this to expense monthly as the lease expires. The total amount expensed for leasing this spectrum was \$5,204 in the years ended December 31, 2010 and 2009.

Estimated lease expense for the next five years is:

<u>Year ending December 31,</u>	<u>Amount</u>
2011	\$ 5,204
2012	5,204
2013	5,204
2014	5,204
2015	2,602

NOTE 7. RELATED PARTY TRANSACTIONS

During the course of normal operations, the Company had transacted business with its members. These transactions include equipment and management services purchased from Evertek, Inc. and Spencer Municipal Utilities as well as spectrum leased from Evertek, Inc. A summary of the related party activity is as follows:

	<u>2010</u>	<u>2009</u>
Equipment and Management Services Purchased:		
Evertek, Inc.	\$ 24,224	\$ 84,098
Spencer Municipal Utilities	154,565	161,958
	<u>\$ 178,789</u>	<u>\$ 246,056</u>

**CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 7. RELATED PARTY TRANSACTIONS (Continued)

The Company had the following amounts included in accounts receivable for equipment and services purchased:

	<u>2010</u>	<u>2009</u>
Everttek, Inc.	\$ 31,977	\$ 34,992
Spencer Municipal Utilities	<u>149,996</u>	<u>196,502</u>
	<u>\$ 181,973</u>	<u>\$ 231,494</u>

The Company had the following amounts included in accounts payable for equipment and services purchased:

	<u>2010</u>	<u>2009</u>
Everttek, Inc.	\$ 6,160	\$ 3,287
Spencer Municipal Utilities	<u>2,782</u>	<u>13,426</u>
	<u>\$ 8,942</u>	<u>\$ 16,713</u>